

WHY SHOULD I BUY, INSTEAD OF RENT?

You'll love the feeling of having something that's all yours - a home...when you own, you can do it all your way! You can deduct the cost of your mortgage loan interest from your federal income taxes, and usually from your state taxes, too. And interest will compose nearly all of your monthly payment for over half the number of years you'll be paying your mortgage. This adds up to hefty savings at the end of each year. And you're also allowed to deduct the property taxes you pay as a homeowner. If you rent, you write your monthly check and it's gone forever. Another financial plus in owning a home is the possibility its value will go up through the years. See a Mortgage 101 Web Site at <http://nt.mortgage101.com>

VISIT FREDDIE MAC'S HOMEBUYER RESOURCE at <http://www.freddiemac.com/community/homebuy.htm>

WHAT ARE HUD HOMES, AND ARE THEY A GOOD DEAL?

HUD homes can be a very good deal. When someone with a HUD insured mortgage can't meet the payments, the lender forecloses on the home; HUD pays the lender what is owed; and HUD takes ownership of the home. Then we sell it at market value as quickly as possible. Read all about buying a HUD home at <http://www.hud.gov/buyhudhm.html> - one might be right for you! And check our listings of HUD homes at <http://www.hud.gov/homesale.html> - as well as homes being sold by other federal agencies.

I'VE HAD BAD CREDIT, AND I DON'T HAVE MUCH FOR A DOWN-PAYMENT. CAN I BECOME A HOMEBUYER?

You may be a good candidate for one of the federal mortgage programs that are available at <http://www.hud.gov/mortprog.html>. A good place for you to start is by contacting one of the HUD-funded housing counseling agencies at <http://www.hud.gov/hsgcoun.html>. They can help you sort through your options. In addition, contact your local government to see if there are any **local homeownership programs** that might work for you. Look in the blue pages of your phone directory for your local office of housing and community development or, if you can't find it, contact your mayor's office or your county executive's office.

I'M A SINGLE MOTHER. HOW WOULD I GO ABOUT BUYING A HOME?

Although you won't have the benefit of two incomes on which to qualify for a loan, there's no reason that you can't become a homeowner. Become familiar with the process, pick a good real estate broker, and think about getting pre-qualified for a loan. You might want to contact one of the HUD-funded housing counseling agencies in your area to talk through your options. And you also might want to think about buying a HUD home - they can be very good deals. Also, contact your local government to see if there are any **local home buying programs** that could help you.

SHOULD I USE A REAL ESTATE BROKER? HOW DO I FIND ONE?

Using a real estate broker is a very good idea. All the details involved in home buying, particularly the financial ones, can be mind-boggling. A good real estate professional can guide you through the entire process and make the experience much easier. A real estate broker will be well-acquainted with all the important things you'll want to know about a neighborhood you may be considering...the quality of schools, the number of children in the area, the safety of the neighborhood, traffic volume, and more. He or she will help you figure the price range you can afford and search the classified ads and multiple listing services for homes you'll want to see. With immediate access to homes as soon as they're put on the market, the broker can save you hours of wasted driving-around time.

When it's time to make an offer on a home, the broker can point out ways to structure your deal to save you money. He or she will explain the advantages and disadvantages of different types of mortgages, guide you through the paperwork, and be there to hold your hand and answer last-minute questions when you sign the final papers at closing. And you don't have to pay the broker anything! The payment comes from the home seller - not from the buyer.

HOW MUCH MONEY WILL I HAVE TO COME UP WITH TO BUY A HOME?

Well, that depends on a number of factors, including the cost of the house and the type of mortgage you get. In general, you need to come up with enough money to cover three costs: **earnest money** - the deposit you make on the home

when you submit your offer, to prove to the seller that you are serious about wanting to buy the house; the **down payment**, a percentage of the cost of the home that you must pay when you go to settlement; and **closing costs**, the costs associated with processing the paperwork to buy a house.

When you make an offer on a home, your real estate broker will put your earnest money into an escrow account. If the offer is accepted, your earnest money will be applied to the down payment or closing costs. If your offer is not accepted, your money will be returned to you. The amount of your earnest money varies. If you buy a HUD home, for example, your deposit generally will range from \$500 - \$2,000.

The more money you can put into your down payment, the lower your mortgage payments will be. Some types of loans require 10-20% of the purchase price. That's why many first-time homebuyers turn to HUD's FHA for help. FHA loans require only 3% down - and sometimes less.

Closing costs - which you will pay at settlement - average 3-4% of the price of your home. These costs cover various fees your lender charges and other processing expenses. When you apply for your loan, your lender will give you an estimate of the closing costs, so you won't be caught by surprise. If you buy a HUD home, HUD may pay many of your closing costs.

HOW DO I KNOW IF I CAN GET A LOAN?

You should contact a real estate broker or a HUD-funded housing counseling agency? They will help you evaluate your loan potential. A broker will know what kinds of mortgages the lenders are offering and can help you choose a lender with a program that might be right for you. Another good idea is to get pre-qualified for a loan. That means you go to a lender and apply for a mortgage before you actually start looking for a home. Then you'll know exactly how much you can afford to spend, and it will speed the process once you do find the home of your dreams. If the amount you can afford is significantly less than the cost of homes that interest you, then you might want to wait awhile longer.

HOW DO I FIND A LENDER?

You can finance a home with a loan from a bank, a savings and loan, a credit union, a private mortgage company, or various state government lenders. Shopping for a loan is like shopping for any other large purchase: you can save money if you take some time to look around for the best prices.

Different lenders can offer quite different interest rates and loan fees; and as you know, a lower interest rate can make a big difference in how much home you can afford. Talk with several lenders before you decide. Most lenders need 3-6 weeks for the whole loan approval process. Your real estate broker will be familiar with lenders in the area and what they're offering. Or you can look in your local newspaper's real estate section - most papers list interest rates being offered by local lenders. You can find **FHA-approved lenders** in the Yellow Pages of your phone book. HUD does not make loans directly - you must use a HUD-approved lender if you're interested in an FHA loan.

IN ADDITION TO THE MORTGAGE PAYMENT, WHAT OTHER COSTS DO I NEED TO CONSIDER?

Well, of course you'll have your monthly utilities. If your utilities have been covered in your rent, this may be new for you. Your real estate broker will be able to help you get information from the seller on how much utilities normally cost. In addition, you might have homeowner association or condo association dues. You'll definitely have property taxes, and you also may have city or county taxes. Taxes normally are rolled into your mortgage payment. Again, your broker will be able to help you anticipate these costs.

SO WHAT WILL MY MORTGAGE COVER?

Most loans have 4 parts: principal: the repayment of the amount you actually borrowed; interest: payment to the lender for the money you've borrowed; homeowners insurance: a monthly amount to insure the property against loss from fire, smoke, theft, and other hazards required by most lenders; and property taxes: the annual city/county taxes assessed on your property, divided by the number of mortgage payments you make in a year. Most loans are for 30 years, although 15 year loans are available, too. During the life of the loan, you'll pay far more in interest than you will in principal - sometimes two or three times more! Because of the way loans are structured, in the first years you'll be paying mostly interest in your monthly payments. In the final years, you'll be paying mostly principal.

WHAT DO I NEED TO TAKE WITH ME WHEN I APPLY FOR A MORTGAGE?

If you have everything with you when you visit your lender, you'll save a good deal of time. You should have:

- social security numbers for both you and your spouse, if both of you are applying for the loan;
- copies of your checking and savings account statements for the past 6 months;
- evidence of any other assets like bonds or stocks;
- a recent paycheck stub detailing your earnings;
- a list of all credit card accounts and the approximate monthly amounts owed on each;
- a list of account numbers and balances due on outstanding loans, such as car loans;
- copies of your last 2 years' income tax statements; and 8) the name and address of someone who can verify your employment.

Depending on your lender, you may be asked for other information.

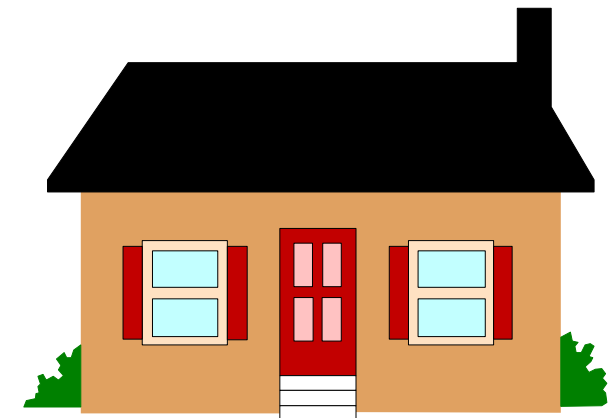
HOW DO I KNOW WHICH MORTGAGE IS BEST FOR ME?

There are many types of mortgages, and the more you know about them before you start, the better. Most people use a fixed-rate mortgage. In a fixed rate mortgage, your interest rate stays the same for the term of the mortgage, which normally is 30 years. The advantage of a fixed-rate mortgage is that you always know exactly how much your mortgage payment will be, and you can plan for it. Another kind of mortgage is an Adjustable Rate Mortgage (ARM). With this kind of mortgage, your interest rate and monthly payments usually start lower than a fixed rate mortgage. But your rate and payment can change either up or down, as often as once or twice a year. The adjustment is tied to a financial index, such as the U.S. Treasury Securities index. The advantage of an ARM is that you may be able to afford a more expensive home because your initial interest rate will be lower.

There are several government mortgage programs that might interest you, too. Most people have heard of FHA & VA mortgages. FHA & VA don't actually make loans. Instead, they insure loans so that if buyers default for some reason, the lenders will get their money.



FIRST TIME HOME BUYERS QUESTIONS & ANSWERS



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
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1-800-382-4880
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